

SECTION III.

Summary of Marketplace Conditions and Possible Step 2 Adjustments to the Overall DBE Goal

The 10.5 percent statistic emerging from the base figure analysis is in the range of ITD overall goals for DBE participation in recent years. ITD could consider adjustments in its base figure for its overall annual DBE goal through a “step 2” process described in 49 CFR Section 26.45. BBC reviewed relevant types of information for a step 2 adjustment that are outlined in the Federal DBE Program, including:

- Current capacity of DBEs to perform work, as measured by the volume of work DBEs have performed in recent years;
- Data on employment, self-employment, education, training and union apprenticeship programs;
- Information on the ability of DBEs to get financing, bonding and insurance; and
- Other relevant data.

Because BBC’s base figure analysis includes minority- and women-owned firms that are not currently DBE certified, BBC considered this factor as well.

Factors that Suggest a Downward Adjustment to the Overall Goal

BBC examined whether or not the 10.5 percent base figure should be adjusted downward.

Past volume of work performed. DBEs were awarded 7.3 percent of contract dollars based on BBC’s analysis of ITD federally-funded contracts from 2002 through January 2006. This demonstrated participation is lower than the possible base figure of 10.5 percent DBE participation. Recent DBE participation in these contracts is further discussed in Section IV of this report.

ITD could consider this information in assessing whether and how to make any step 2 adjustments in determining an overall annual goal.

Current DBE certification of minority- and women-owned firms. The 10.5 percent figure counts minority- and women-owned firms that could potentially be certified as DBEs. About one-half of the minority- and women-owned firms in the BBC availability analysis were DBE certified in 2006. It may be a challenge for ITD to encourage these business owners to obtain certification. ITD would also need the resources to explain and review certification applications.

ITD should include the fact that many of the firms counted in the base figure analysis are not currently DBE-certified when considering any step 2 adjustments.

Factors that Suggest an Upward Adjustment to the Overall Goal

BBC completed an analysis of other issues identified in 49 CFR Section 26.45 that tend to suggest upward adjustments in the overall goal for DBE participation. BBC's analysis suggests that there are barriers to entry and expansion in the transportation construction and engineering industries that may begin with education and training and continue through forming a business and gaining access to capital. Appendix F describes this information in detail.

Analysis of possible barriers to entry and other factors potentially affecting MBE/WBE businesses necessarily focuses on Hispanic Americans, Native Americans and women. Hispanic Americans comprised about 6 percent of the Idaho workforce in 2000. The relatively low numbers of Asian-Pacific Americans, African Americans and Subcontinent Asian Americans affects the types of analyses that BBC could perform using U.S. Census data. About 2 percent of Idaho workers were Native Americans. Asian-Pacific Americans were 1.4 percent of the workforce and African Americans were 0.8 percent of the workforce. Subcontinent Asian Americans were 0.2 percent of the workforce.

The analysis below refers to the Idaho marketplace. As described in Section II, BBC included Cache County, Utah (Logan area) and Spokane and Asotin counties in Eastern Washington in certain analyses of the Idaho marketplace.

Entry into the construction industry. BBC examined education, employment and advancement for the construction industry in Idaho. Race and ethnic minorities comprised 9 percent of employees in the Idaho construction industry in 2000.

Education. Formal education beyond high school is not a prerequisite for most jobs in the construction industry.

Employment. Based on people counted in the 2000 Census of Population, Hispanic Americans, African Americans and Asian-Pacific Americans working in Idaho were relatively less likely to work in construction than other race/ethnic groups. About 11 percent of construction workers in Idaho are women, about the same percentage as found for the U.S. as a whole. There may be barriers to construction employment for these groups in Idaho.¹

Advancement. There are large differences in the racial, ethnic and gender makeup of workers in different trades related to highway construction based on the 2000 U.S. Census of Population. This suggests possible barriers to advancement for minorities and women.

For example, only 2 percent of front-line supervisors in 2000 were Hispanic Americans compared with 13 percent of cement masons, concrete finishers and terrazzo workers and 9 percent of iron and steel workers. Educational differences cannot explain fully these differences. There were some construction trades in which women comprised only 1 percent of the workforce.

Entry into the engineering industry. BBC examined education and employment and in the Idaho engineering industry. Only 6 percent of employees were race/ethnic minorities in 2000. Women accounted for one-third of industry employment.

¹ Native Americans are more likely to work in construction over other industries in Idaho; Three percent of construction workers are Native Americans.

Education. About one-half of the individuals working in the engineering industry have at least a four-year college degree. More than three-quarters of people working as engineers have this level of education. Educational attainment may be a barrier for Hispanic Americans and Native Americans working in the Idaho because they are less likely to have a college degree than other groups.

Other disparities in employment. About 5 percent of engineers working in Idaho in 2000 were race/ethnic minorities, slightly less than the share of all adults with a four-year college degree in the state. However, only 12 percent of engineers in Idaho are women, far less than women's share of people with college degrees (44 percent). This difference is statistically significant. Figure F-8, on page 12 of Appendix F, presents these results.

Business formation and ownership. BBC examined U.S. Census data on business ownership rates using similar methods to the information reviewed in the court cases involving state departments of transportation in Illinois and Minnesota.

Construction. Hispanic Americans and Native Americans working in the Idaho construction industry are less likely than non-Hispanic whites to own construction businesses. There are also large differences in business ownership rates for women working in construction. BBC, through regression analysis, found that factors other than race, ethnicity and gender largely explained these disparities. As presented in Appendix H, there were no statistically significant disparities after controlling for neutral factors.

Engineering. Due to limited data on minorities working in the Idaho engineering industry, the study team was unable to develop a separate engineering-only business ownership model.

Rates of business closure. Rates of closure among minority-owned firms are higher in Idaho than for non-Hispanic white-owned firms, and they are substantially higher for African American-owned firms (see Appendix F).

Access to capital. BBC's analysis of available data indicate that minority-owned firms are more likely to experience problems accessing capital than non-Hispanic white-owned firms Appendix F and Appendix H provide these results.

Business capital from home equity. Home equity is an important source of capital for business start-up and growth.

- Relatively fewer African Americans and Hispanic Americans in Idaho own homes in Idaho compared with non-Hispanic whites.
- Home values for Hispanic American and Native American homeowners in Idaho are considerably lower than for non-Hispanic whites.
- Rates of loan denials for African Americans, Hispanic Americans and Native Americans applying for home mortgages in Idaho are nearly twice as high as for non-minorities.
- African American, Hispanic American and Native American mortgage borrowers are more likely to have subprime loans.

Business loans. Minority-owned businesses have higher denial rates when applying for business loans. After accounting for certain neutral influences, firms owned by minorities remain significantly more likely to have their loans denied than other firms (see Appendix H).²

Bonding. During in-depth interviews with a variety of business owners and trade association leaders, several interviewees reported that bonding was a barrier to bidding public sector work for small companies. Several contractors said that bonding was a barrier to doing business with ITD. Interviewees reported that bonding and access to capital was a particular problem for Native American-owned firms located on a reservation.

Largest bids of minority- and women-owned firms. In the Availability Survey, BBC asked firms in the transportation construction and engineering industry to identify the largest contract/subcontract a firm had received or bid on in the past five years. There were no statistically significant disparities after controlling for firm specialization and age.³

Business earnings. BBC examined U.S. Census data on earnings of business owners in construction and engineering using similar methods to the information reviewed in the court cases involving state departments of transportation in Illinois and Minnesota. After accounting for neutral factors, BBC found statistically significant disparities in earnings for female business owners. The model also indicates that differences in the earnings of minority business owners were not statistically significant after controlling for other factors.

Summary

There are reasons for ITD to consider downward and upward adjustments to the base figure for overall DBE participation. It will be difficult for ITD to encourage the many non-DBE-certified firms to apply for certification. However, analysis of certain local marketplace data reveals reasons for upward adjustments to the base figure. This information indicates barriers to entry into the Idaho construction and engineering industries, low rates of business ownership for women, and other barriers such as access to capital.

ITD should include all of the above information in its consideration of whether or not to make any step 2 adjustment to a base figure for the overall annual DBE goal. It may be that ITD does not need to make any adjustment to the base figure given the mix of factors analyzed in this section. Any factors indicating downward adjustment may be offset by factors indicating upward adjustments.

² BBC's statistical analysis of business loans could control for location of firms in the Rocky Mountain Region. The dataset could not be used to examine firms just in Idaho.

³ The extent to which minority- and women-owned firms tend to be younger and in different subindustries than majority-owned firms may not be an entirely "neutral" explanation for disparities in bid capacity if past discrimination has influenced whether there are relatively few older MBE/WBE firms or the relative concentration of MBE/WBEs in different subindustries.